
Acord Cox & Company
Certified Public Accountants

**RURAL WATER DISTRICT NO. 4
FRANKLIN COUNTY, KANSAS**

**Financial Statements for the
Years Ended October 31, 2017 and 2016
and Independent Auditors' Report**

**RURAL WATER DISTRICT NO. 4
FRANKLIN COUNTY, KANSAS**

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INDEPENDENT AUDITORS' REPORT

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Board of Directors and Members
Rural Water District No. 4
Franklin County, Kansas

We have audited the accompanying statements of net position of Rural Water District No. 4, Franklin County (the "District") as of October 31, 2017 and 2016, and the related statements of revenues, expenses, and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of October 31, 2017 and 2016, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter: Management's Discussion and Analysis

Management's discussion and analysis on pages 2 through 5 is presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who consider it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Acord Cox & Co.

November 22, 2017

**Rural Water District No. 4
Franklin County, Kansas**

Management's Discussion and Analysis

This section of the Rural Water District No. 4, Franklin County, Kansas annual financial report presents an analysis of the District's financial performance during the year ended October 31, 2017. This information is prepared and presented in conjunction with the annual audited financial reports prepared by the District's independent auditing firm.

Rural Water District No. 4 Financial Overview for 2017

- The District's total assets decreased by \$123,267 from \$4,573,630 in 2016 to \$4,450,363 in 2017.
- The District's total liabilities decreased by \$71,830 from \$1,823,978 in 2016 to \$1,752,148 in 2017.
- The District's revenues from water sales decreased by \$21,508 from \$627,101 in 2016 to \$605,593 in 2017.
- The District's costs and operating expenses increased by \$29,832 from \$618,066 in 2016 to \$647,898 in 2017.

Overview of the Financial Statements

This report will include the Management's Discussion and Analysis, Financial Statements for the year ended October 31, 2017 and 2016, and the Independent Auditors' Report. The Independent Auditors' Report will include notes and supporting details for information presented in the Management's Discussion and Analysis.

Required Financial Statements

The Financial Statements of the District report information by using accrual accounting practices. The Financial Statements conform to accounting principles that are generally accepted in the United States of America. The Statements of Net Position includes information on the District's assets and liabilities and provide information about the type and amounts of investments (assets) secured and the obligations to the District's creditors (liabilities). The Statements of Revenues, Expenses, and Changes in Net Position exhibit the District's revenues and expenses for the years ended October 31, 2017 and 2016. The Statements of Cash Flows presents information on the District's cash receipts, cash payments and changes in cash flow resulting from operations, investments and financing activities.

Financial Analysis of the District

The Statements of Net Position and the Statements of Revenues, Expenses, and Changes in Net Position present information on the District's financial condition. The District's net

position is indicated by the difference between its assets and liabilities. An improvement in the District's financial condition is reflected by an increase in net position.

Net Position

A summary of the District's Statements of Net Position is presented below.

Table 1
Condensed Statements of Net Position

	2017	2016	Dollar Change	Percent Change
Current and Other Assets	346,861	372,474	(25,613)	-6.9%
Noncurrent Assets	713,560	707,307	6,253	0.9%
Capital Assets, net	3,373,952	3,483,727	(109,775)	-3.2%
Deferred Outflows of Resources	15,990	10,122	5,868	58.0%
Total Assets and Deferred Outflows	4,450,363	4,573,630	(123,267)	-2.7%
Current Liabilities	113,739	114,148	(409)	-0.4%
Long-term Debt	1,560,000	1,635,000	(75,000)	-4.6%
Net Pension Liability	64,619	61,135	3,484	5.7%
Deferred Inflows of Resources	13,790	13,695	95	100.0%
Total Liabilities and Deferred Inflows	1,752,148	1,823,978	(71,830)	-3.9%
Net assets invested in				
capital assets, net of related debt	1,738,952	1,778,727	(39,775)	-2.2%
Restricted	243,424	241,631	1,793	0.7%
Unrestricted	715,839	729,294	(13,455)	-1.8%
Total Net Position	2,698,215	2,749,652	(51,437)	-1.9%

Total assets decreased by \$123,267 from \$4,573,630 in 2016 to \$4,450,363 in 2017. This is a result of a net operating loss in 2017. Capital assets are a net result of all fixed assets, including 2017 additions, less accumulated depreciation.

Total liabilities decreased by \$71,830 from \$1,823,978 in 2016 to \$1,752,148 in 2017. During the year, the District continued to make payments on outstanding bonds payable that were obtained for the construction of the new water tower. Accounts payable decreased by \$142 and accrued liabilities decreased by \$5,267. In 2015, the District implemented GASB 68 and GASB 71, resulting in the recognition of the District's long-term obligation for pension benefits as a liability on the statement of net position.

Total net position decreased by \$51,437 from \$2,749,652 in 2016 to \$2,698,215 in 2017.

Table 2
Condensed Statements of Revenue, Expenses, And Changes in Net Position

	2017	2016	Dollar Change	Percent Change
Operating Revenues	605,593	627,101	(21,508)	-3.4%
Non-operating Revenues	27,813	4,304	23,509	546.2%
Total Revenues	633,406	631,405	2,001	0.3%
Depreciation Expense	158,374	153,547	4,827	3.1%
Other Operating Expense	489,524	464,519	25,005	5.4%
Non-operating Expense	64,945	65,962	(1,017)	-1.5%
Total Expenses	712,843	684,028	28,815	4.2%
Income (Loss) Before Capital Contributions	(79,437)	(52,623)	(26,814)	51.0%
Capital Contributions	28,000	35,000	(7,000)	-20.0%
Changes in Net Position	(51,437)	(17,623)	(33,814)	191.9%
Beginning Net Position	2,749,652	2,767,275	(17,623)	-0.6%
Ending Net Position	2,698,215	2,749,652	(51,437)	-1.9%

The Statements of Revenue, Expenses, and Changes in Net Position represent revenue and expense items that affect the change in net position. As the information presented in Table 2 shows, the loss before capital contributions was \$79,437 with capital contributions of \$28,000, which resulted in a net decrease in net position of \$51,437 for the year ended October 31, 2017.

The District's total operating revenues decreased by \$21,508 from \$627,101 in 2016 to \$605,593 in 2017. Total expenses increased by \$28,815 from \$684,028 in 2016 to \$712,843 in 2017. The major contributors to the increase in expenses were related to repairs and maintenance and cost of water purchased.

Debt

In 2010, the District issued \$1,989,970 in revenue bonds to assist with the construction of the new water tower. The outstanding balance is \$1,635,000 at October 31, 2017, of which, \$1,560,000 is classified as long term.

Additional Financial Information

This financial report is designed to provide the District's patrons, investors and other interested parties with an overview of the District's financial operations and financial condition. Should the reader have questions regarding the information included in this report or wish to request additional financial information, please contact Rural Water District No. 4, Franklin County, KS Office Manager at 1506 Old Hwy 50 Williamsburg, KS 66095.

RURAL WATER DISTRICT NO. 4
FRANKLIN COUNTY, KANSAS

STATEMENTS OF NET POSITION
OCTOBER 31, 2017 AND 2016

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		2017	2016
CURRENT ASSETS			
Cash and cash equivalents	\$	152,050	\$ 181,990
KRWFA deposit		102,449	102,090
Accounts receivable		55,728	56,211
Prepaid expenses and other current assets		14,037	14,017
Inventory		22,597	18,166
Total current assets		<u>346,861</u>	<u>372,474</u>
NONCURRENT ASSETS			
Certificates of deposit		470,136	465,676
Loan reserve fund		243,424	241,631
Total noncurrent assets		<u>713,560</u>	<u>707,307</u>
CAPITAL ASSETS			
Nondepreciable capital assets		14,400	14,400
Depreciable capital assets		5,671,276	5,622,677
Less accumulated depreciation		(2,311,724)	(2,153,350)
Depreciable capital assets, net		<u>3,359,552</u>	<u>3,469,327</u>
Total capital assets, net		<u>3,373,952</u>	<u>3,483,727</u>
Total assets		4,434,373	4,563,508
DEFERRED OUTFLOWS OF RESOURCES			
		15,990	10,122
Total assets and deferred outflows of resources	\$	<u>4,450,363</u>	\$ <u>4,573,630</u>
LIABILITIES AND DEFERRED INFLOWS OF RESOURCES			
CURRENT LIABILITIES			
Current portion of long-term debt	\$	75,000	\$ 70,000
Accounts payable		25,477	25,619
Accrued liabilities		13,262	18,529
Total current liabilities		<u>113,739</u>	<u>114,148</u>
LONG-TERM DEBT, less current portion		1,560,000	1,635,000
NET PENSION LIABILITY		<u>64,619</u>	<u>61,135</u>
Total liabilities		1,738,358	1,810,283
DEFERRED INFLOWS OF RESOURCES			
		13,790	13,695
Total liabilities and deferred inflows of resources		<u>1,752,148</u>	<u>1,823,978</u>
NET POSITION			
Invested in capital assets, net of related debt		1,738,952	1,778,727
Restricted		243,424	241,631
Unrestricted		715,839	729,294
Total net position	\$	<u>2,698,215</u>	\$ <u>2,749,652</u>

See notes to financial statements.

RURAL WATER DISTRICT NO. 4
FRANKLIN COUNTY, KANSAS

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEARS ENDED OCTOBER 31, 2017 AND 2016

	2017	2016
WATER SALES	\$ 605,593	\$ 627,101
COST OF WATER PURCHASED	189,448	155,357
GROSS PROFIT	<u>416,145</u>	<u>471,744</u>
COSTS AND OPERATING EXPENSES		
Personnel costs	94,136	110,090
Repairs and maintenance	105,238	83,553
Office supplies and telephone	13,782	10,957
Utilities	33,439	34,557
Insurance	14,831	13,878
Professional fees	10,537	24,775
Water analysis and testing	3,354	4,166
Water protection fee	1,774	7,970
Vehicle expense	8,560	5,041
Dues and subscriptions	1,012	800
Mileage	2,015	2,502
Board expense	5,840	4,818
Depreciation and amortization	158,374	153,547
Miscellaneous	5,558	6,055
	<u>458,450</u>	<u>462,709</u>
INCOME FROM OPERATIONS	<u>(42,305)</u>	<u>9,035</u>
NON-OPERATING REVENUES (EXPENSES)		
Interest income	8,522	2,752
Other income (expense)	19,291	1,552
Interest expense	(64,945)	(65,962)
	<u>(37,132)</u>	<u>(61,658)</u>
INCOME (LOSS) BEFORE CONTRIBUTIONS	<u>(79,437)</u>	<u>(52,623)</u>
CONTRIBUTIONS - BENEFIT UNITS AND AID-IN CONSTRUCTION	28,000	35,000
INCREASE (DECREASE) IN NET POSITION	(51,437)	(17,623)
NET POSITION, BEGINNING OF YEAR (RESTATED)	2,749,652	2,767,275
NET POSITION, END OF YEAR	<u>\$ 2,698,215</u>	<u>\$ 2,749,652</u>

See notes to financial statements.

RURAL WATER DISTRICT NO. 4
FRANKLIN COUNTY, KANSAS

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED OCTOBER 31, 2017 AND 2016

	2017	2016
OPERATING ACTIVITIES:		
Cash receipts from customers	\$ 606,076	\$ 623,295
Cash payments to suppliers for goods and services	(501,673)	(453,942)
Net cash provided by operating activities	<u>104,403</u>	<u>169,353</u>
CAPITAL AND RELATED FINANCING ACTIVITIES:		
Proceeds from sale of benefit units and line extensions	28,000	35,000
Change in long-term debt	(70,000)	(70,000)
Interest paid	(64,945)	(65,962)
Change in KRWFA deposit	(359)	54,539
Acquisition and construction of fixed assets	(48,599)	(111,010)
Net cash used in capital and related financing activities	<u>(155,903)</u>	<u>(157,433)</u>
INVESTING ACTIVITIES:		
Change in certificates of deposit	(4,460)	(12,304)
Change in loan reserve	(1,793)	(726)
Interest received	27,813	4,304
Net cash provided by (used in) investing activities	<u>21,560</u>	<u>(8,726)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	<u>(29,940)</u>	<u>3,194</u>
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>181,990</u>	<u>178,796</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 152,050</u>	<u>\$ 181,990</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ (42,305)	\$ 9,035
Adjustments to reconcile operating income to net cash provided by used in operating activities:		
Depreciation and amortization	158,374	153,547
Changes in:		
Accounts receivable	483	(3,806)
Inventories	(4,431)	3,810
Deferred outflows of resources for pension contribution	(5,868)	503
Prepaid insurance and other current assets	(20)	2,438
Accounts payable and accrued liabilities	(5,409)	(3,006)
Net pension liability	3,484	13,983
Deferred inflows of resources	95	(7,151)
Net cash provided by operating activities	<u>\$ 104,403</u>	<u>\$ 169,353</u>

See notes to financial statements.

RURAL WATER DISTRICT NO. 4 FRANKLIN COUNTY, KANSAS

NOTES TO FINANCIAL STATEMENTS YEARS ENDED OCTOBER 31, 2017 AND 2016

1. DESCRIPTION OF ENTITY

- a. Organization and Description of Operations - The Rural Water District (the "District") was established as a tax exempt organization under the laws of the State of Kansas and is governed by an independent Board of Directors. Principal functions of the District include the acquisition, treatment, and distribution of water to owners and occupants of land located within the district. Total customers at October 31, 2017 and 2016 were 883 and 877.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- a. Basis of Presentation and Accounting - The District's financial statements are presented on the full accrual basis of accounting and conform to accounting principles generally accepted in the United States of America. The District has elected under GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Activities That Use Proprietary Fund Accounting*, to apply applicable GASB pronouncements, as well as any applicable pronouncements of the Financial Accounting Standards Board, the Accounting Principles Board, or any Accounting Research Bulletins, unless these pronouncements conflict with or contradict GASB pronouncements.

The accounts of the District are organized on the basis of a proprietary fund type, specifically an enterprise fund. The activities of this fund are accounted for with a separate set of self-balancing accounts that comprise the District's assets, liabilities, net position, revenues and expenses.

The accounting and financial reporting treatment applied to the District is determined by its measurement focus. The transactions of the District are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operations are included in the statements of net position. Net position (i.e. total assets net of total liabilities) are segregated into invested capital assets, net of related debt; restricted for debt service; and unrestricted components.

Management of the District has made certain estimates and assumptions relating to the reporting of assets and liabilities and revenues and expenses to prepare these financial statements in conformity with generally accepted accounting principles. Actual results may differ from those estimates.

- b. Cash Equivalents - For purposes of the statements of cash flows, the District considers all highly liquid debt investments having original maturities of three months or less to be cash equivalents.
- c. Inventories - Inventories consist primarily of meters, pipe and line maintenance material. Inventories are stated at the lower of cost or market. Cost is determined using the first-in, first-out method.
- d. Capital Assets - Property, plant, and equipment are stated at cost less accumulated depreciation. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets. The cost of maintenance and repairs is charged to income as incurred; significant renewals and improvements are capitalized.
- e. Income Taxes - The District is a quasi-governmental unit, not subject to federal or state income taxes.

- f. Capital Contributions - Transmission and distribution system assets contributed to the District are capitalized at the members' costs, which approximate fair value, and recorded as capital contributions when received. Benefit units, currently \$7,000, are recorded as contributions when received.
- g. Accounts Receivable and Unbilled Revenue - The District utilizes cycle billing and accrues an estimated amount of revenues for sales unbilled at the end of each reporting period. The unbilled amount plus any amounts billed to customers but not yet received by the District is recorded as accounts receivable and accrued water sales.
- h. Net position - Net position comprise the various net earnings from operating income, nonoperating revenues and expenses, and capital contributions. Net position are classified in the following three components:

Invested in Capital Assets, Net of Related Debt - This component of net position consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.

Restricted - This component of net position consists of constraints imposed by creditors (such as through debt covenants), grantors, contributors or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted - This component of net position consists of net position that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

- i. Subsequent Events - Management has evaluated subsequent events through the date of the Independent Auditors' Report, the date which the financial statements were available for issue and has concluded that there are no subsequent events that materially impact the financial statements.

3. CAPITAL ASSETS

Changes in capital assets were as follows:

	2016	Additions	Disposals & Transfers	2017
Nondepreciable capital assets:				
Land	14,400			14,400
	14,400	-	-	14,400
Depreciable capital assets:				
Other equipment	180,842	600		181,442
Line extensions and tower	4,918,777	43,842		4,962,619
Office equipment	102,073	4,157		106,230
Pumps and motors	91,367			91,367
Building	68,035			68,035
Radio equipment	219,199			219,199
Vehicle	42,384			42,384
	5,622,677	48,599	-	5,671,276
Less accumulated depreciation	(2,153,350)	(158,374)		(2,311,724)
Depreciable capital assets, net	3,469,327	(109,775)		3,359,552
Total capital assets, net	3,483,727	(109,775)		3,373,952

	2015	Additions	Disposals & Transfers	2016
Nondepreciable capital assets:				
Land	14,400			14,400
	14,400	-	-	14,400
Depreciable capital assets:				
Other equipment	180,842			180,842
Line extensions and tower	4,832,925	85,852		4,918,777
Office equipment	76,914	25,159		102,073
Pumps and motors	91,367			91,367
Building	68,035			68,035
Radio equipment	219,199			219,199
Vehicle	42,384			42,384
	5,511,666	111,011	-	5,622,677
Less accumulated depreciation	(1,999,802)	(153,548)		(2,153,350)
Depreciable capital assets, net	3,511,864	(42,537)		3,469,327
Total capital assets, net	3,526,264	(42,537)		3,483,727

4. CASH AND INVESTMENTS

Deposits - At October 31, 2017 and 2016, the District's deposits were covered by federal depository insurance or by collateral held by the District's agent in the District's name. The District's investments at October 31, 2017 and 2016 were carried at cost which is the same as market value.

Investments - State statutes also authorize municipalities to invest general operating monies in direct obligations of the United States government or its agencies or in repurchase agreements if local financial institutions are not able to pay the average Treasury bill rate. All investments must be insured, registered or held by the municipality or its agent in the municipality's name.

5. LONG-TERM DEBT

	2017	2016
KRWFA Revenue Bonds, Series B, interest due in semi-monthly installments commencing on April 1, 2012 at rates ranging from 1.0% to 4.45% that matures in October of 2031.	\$ 1,635,000	\$ 1,705,000
Less current portion	<u>75,000</u>	<u>70,000</u>
	<u>\$ 1,560,000</u>	<u>\$ 1,635,000</u>

The District is required to establish and fund, a bond reserve account with a balance equal to \$164,509. The balance in the reserve account as of October 31, 2017 and 2016 was \$243,424 and \$241,631, respectively.

The District is required to maintain a Debt Service Coverage Ratio, as defined in the loan agreement of at least 125%.

Interest expense on long-term debt totaled \$64,945 and \$65,962 for the years ended October 31, 2017 and 2016.

Changes to the District's long-term debt are as follows:

Total long-term debt, beginning	\$ 1,705,000
Advances	-
Principal payments	<u>(70,000)</u>
Total long-term debt, ending	1,635,000
Less current portion	<u>75,000</u>
Noncurrent portion	<u>\$ 1,560,000</u>

Future maturities of long-term debt are as follows:

	<u>Principal</u>	<u>KRWFA Interest</u>	<u>Total</u>
2018	\$ 75,000	\$ 63,545	\$ 138,545
2019	75,000	61,670	134,945
2020	80,000	59,795	139,795
2021	85,000	57,395	142,395
2022	90,000	54,845	144,845
2023-2027	525,000	221,125	746,125
2028-2031	705,000	91,410	796,410
	<u>\$ 1,635,000</u>	<u>\$ 609,785</u>	<u>\$ 2,243,060</u>

Debt Service Coverage Ratio Calculation:

Increase (decrease) in Net Position	\$ (51,437)
Add:	
Depreciation and amortization	158,374
Interest expense	64,945
Income available for debt service	<u>\$ 171,882</u>
Debt service	
Interest expense	\$ 64,945
Principal payments	70,000
	<u>\$ 134,945</u>
Debt service coverage ratio	<u>1.27</u>

6. PENSION PLAN

Description of Pension Plan

The District participates in a cost-sharing multiple-employer pension plan ("Pension Plan"), administered by the Kansas Public Employees Retirement System ("KPERs"). KPERs provides benefit provisions to the following statewide pension groups under one plan, as provided by K.S.A. 74, article 49:

Public employees, which includes:

- State/School employees
- Local employees
- Police and Firemen
- Judges

Substantially all public employees in Kansas are covered by the Pension Plan. Participation by local political subdivisions is optional, but irrevocable once elected.

Those employees participating in the Pension Plan for the District are included in the local employee group.

KPERs issues a stand-alone comprehensive annual financial report, which is available on the KPERs website at www.kpers.org.

Benefits

Benefits are established by statute and may only be changed by the General Assembly. Members with ten or more years of credited service, may retire as early as age 55, with an actuarially reduced monthly benefit. Normal retirement is at age 65, age 62 with ten years of credited service, or whenever a member's combined age and years of service equal 85.

Monthly retirement benefits are based on a statutory formula that includes final average salary and years of service. When ending employment, members may withdraw their contributions from their individual accounts, including interest. Members who withdraw their accumulated contributions lose all rights and privileges of membership. For all pension coverage groups, the accumulated contributions and interest are deposited into and disbursed from the membership accumulated reserve fund as established by K.S.A. 74-4922.

Members choose one of seven payment options for their monthly retirement benefits. At retirement a member may receive a lump-sum payment of up to 50% of the actuarial present value of the member's lifetime benefit. His or her monthly retirement benefit is then permanently reduced based on the amount of the lump sum. Benefit increases, including ad hoc post-retirement benefit increases, must be passed into law by the Kansas Legislature. Benefit increases are under the authority of the Legislature and the Governor of the State of Kansas. For all pension coverage groups, the retirement benefits are disbursed from the retirement benefit payment reserve fund as established by K.S.A. 74-4922.

Contributions

Member contributions are established by state law, and are paid by the employee according to the provisions of Section 414(h) of the Internal Revenue Code. State law provides that the employer contribution rates are determined based on the results of an annual actuarial valuation. The contributions and assets of all groups are deposited in the Kansas Public Employees Retirement Fund established by K.S.A. 74-4921. All of the retirement systems are funded on an actuarial reserve basis.

For fiscal years beginning in 1995, Kansas legislation established statutory limits on increases in contribution rates for KPERS employers. Annual increases in the employer contribution rates related to subsequent benefit enhancements are not subject to these limitations. The statutory cap increase over the prior year contribution rate is 1.1% of total payroll for the fiscal year ended June 30, 2016.

The actuarially determined employer contribution rates and the statutory contribution rates for local government employees are 9.18% and 9.18%, respectively. Member contribution rates as a percentage of eligible compensation in fiscal year 2016 are 6.00% for local government employees. The contribution requirement for the years ended October 31, 2017 and 2016 was \$6,712 and \$9,258, which consisted of \$2,657 and \$3,426 from employees and \$3,813 and \$5,832 from the District, respectively.

Employer Allocations

Although KPERS administers one cost-sharing multiple-employer defined benefit pension plan, separate (sub) actuarial valuations are prepared to determine the actuarial determined contribution rate by group. Following this method, the measurement of the collective net pension liability, deferred outflows of resources, deferred inflows of resources, and pension expense are determined separately for each of the following groups of the plan:

- State/School
- Local
- Police and Firemen
- Judges

To facilitate the separate (sub) actuarial valuations, KPERS maintains separate accounts to identify additions, deductions, and fiduciary net position applicable to each group. The allocation percentages

presented for each group in the schedule of employer and nonemployer allocations are applied to amounts presented in the schedules of pension amounts by employer and nonemployer. The allocation percentages for the District's share of the collective pension amounts as of June 30, 2016 and 2015 was based on the ratio of its contributions to the total of the employer and nonemployer contributions of the group for the fiscal years ended June 30, 2016 and 2015, respectively.

The contributions used exclude contributions made for prior service, excess benefits and irregular payments. At June 30, 2016, the District's proportion was .0042%, which was a decrease of .0005% from its proportion measured at June 30, 2015.

Net Pension Liability

At October 31, 2017 and 2016, the District reported a liability of \$64,619 and \$61,135, for its proportionate share of the net pension liability.

Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of December 31, 2016, which was rolled forward to June 30, 2016, using the following actuarial assumptions:

Price inflation	3.00%
Wage inflation	4.00%
Salary increases, including wage increases	4.00 to 16.00%, including inflation
Long-term rate of return, net of investment expense, and including price inflation	8.00%

Mortality rates were based on the RP-2000 Combined Mortality Table for Males and Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

The actuarial assumptions used in the December 31, 2015 valuation were based on the results of an actuarial experience study conducted for the three year period ending December 31, 2012.

The long-term expected rate of return of pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2016 are summarized in the following table:

Asset Class	Long-Term Target Allocation	Long-Term Expected Real Rate of Return
Global equity	47.00%	6.80%
Fixed income	13.00	1.25
Yield driven	8.00	6.55
Real return	11.00	1.71
Real estate	11.00	5.05
Alternatives	8.00	9.85
Short-term investments	2.00	(0.25)
Total	100.00%	

Discount Rate

The discount rate used to measure the total pension liability was 8.00%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the contractually required rate. The State, School and Local employers do not necessarily contribute the full actuarial determined rate. Based on legislation passed in 1993, the employer contribution rates certified by the System's Board of Trustees for these groups may not increase by more than the statutory cap. The expected KPERS employer statutory contribution was modeled for future years, assuming all actuarial assumptions are met in future years. Employers contribute the full actuarial determined rate for Police & Firemen, and Judges. Future employer contribution rates were also modeled for Police & Firemen and Judges, assuming all actuarial assumptions are met in future years. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the District's proportionate share of the net pension liability to changes in the discount rate

The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 8.00%, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (7.00%) or 1-percentage point higher (9.00%) than the current rate:

1% Decrease (7.00%)	Discount rate (8.00%)	1% Increase (9.00%)
\$88,571	\$64,619	\$44,310

Pension Expense

For the years ended October 31, 2017 and 2016, the District recognized pension expense of \$5,915 and \$7,335, which include the changes in the collective net pension liability, projected earnings on pension plan investments, and the amortization of deferred outflows of resources and deferred inflows of resources for the current period.

Deferred Outflows of Resources and Deferred Inflows of Resources

At October 31, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred outflows of resources	Deferred inflows of resources
Differences between expected and actual experience	375	1,166
Changes of assumptions	-	604
Net differences between projected and actual earnings on investments	7,633	-
Changes in proportion	7,982	12,020
	<u>\$ 15,990</u>	<u>\$ 13,790</u>

The following table provides the net deferred outflows/(deferred inflows) of resources that will be recognized in pension expense in future years:

Deferred outflows/(inflows) of resources:	
2018	\$ (782)
2019	(782)
2020	1,989
2021	2,404
2022	(629)
Thereafter	-
	<u>\$ 2,200</u>

8. COMPLIANCE WITH KANSAS STATUTES

References made herein to the statutes are not intended as interpretations of law, but are offered for consideration of the Director of Accounts and Reports and interpretation by the County Attorney and legal representatives of the water district. There were no apparent statutory violations during the year ended October 31, 2017.
